

**STATE COMPENSATION INSURANCE FUND
AUDIT COMMITTEE**

MINUTES OF OPEN SESSION MEETING

February 16, 2012

The Audit Committee met on February 16, 2012 in 333 Bush Street, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 8:10 a.m. and the following Members were present: Francisc E. Quinlan, Steven L. Rank, William M. Zachry and Sheryl A. Chalupa (Alternate).

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Internal Audit Program Manager Marie W. Wardell; General Counsel and Corporate Secretary Carol R. Newman; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and KPMG Engagement Partner Leigh Wilson, KPMG Manager Julie Rhodes-Urrea, KPMG Actuaries Patty Smolen and Leslie Marlo.

AGENDA ITEM 2: CERTIFICATE OF APPRECIATION – MARIE WARDELL

The Committee presented Marie Wardell with a certificate of Appreciation for her outstanding work and dedication as Assistant Corporate Secretary and Program Manager of Internal Audit and conveyed best wishes in her new role as Corporate Claims Operations Manager.

AGENDA ITEM 3. INTRODUCTION OF DANTE ROBINSON, CHIEF OF INTERNAL AFFAIRS

Mr. Quinlan announced selection of Dante Robinson as Chief of Internal Affairs. Mr. Robinson will oversee the areas of Internal Audit, Governance, Compliance and Privacy and Special Investigation Unit (SIU). He will provide direct reports to Mr. Quinlan, State Fund's Audit Chair. Prior to joining State Fund, Mr. Robinson, was Senior Vice President and Audit Director at Wells Fargo Bank in San Francisco where he implemented continuous auditing and served in a leadership role on a number of projects and initiatives that supported improved quality and effectiveness of the internal audit function. Mr. Robinson also worked for Charles Schwab & Co. as Director of the Internal Audit Department. He also handled high profile fraud investigations and has deep bench strength in privacy, which is an important initiative for State Fund in 2012.

Mr. Robinson is a CPA and a graduate of University of California, Berkeley with a business degree in Finance and Accounting.

AGENDA ITEM 4. APPROVAL OF NOVEMBER 14, 2011 OPEN MEETING MINUTES

MOTION: Mr. Zachry

Second: Mr. Rank

To approve the minutes of the November 14, 2011 Open Meeting of the Audit Committee as presented.

Mr. Quinlan asked for public comment of which there was none, and called for the vote.

YES: 4 NO: 0

Motion carried.

AGENDA ITEM 5: COMPLETED CLOSED AUDITS

Mr. Quinlan invited Marie W. Wardell, Internal Audit Manager, to report on the completed closed audits.

PAO 630 – ITIL Adoption and Integration

Ms. Wardell reported that in 2009 State Fund adopted the Information Technology Infrastructure Library (ITIL) approach to IT service management, which provides a set of best practice and governance standards for IT services. ITIL goal is to increase productivity and efficiency, improve business processes, and optimize cost. ITIL was implemented in three IT Department areas: Incident Management, Change Management and Service Desk Management. Internal Audit's objective with this audit was to evaluate the achievement of goals and objectives established for the ITIL project, including the cost and quality of deliverables; compliance with Control Objective for Information Technology (CoBit) and Project Management Office (PMO) standards for project management; and assess how ITIL translated into improved efficiencies and effectiveness of IT operations.

Ms. Wardell reported that IT developed the Key Performance Indicators (KPI) and tracking infrastructure to permit management to evaluate and respond to the KPIs metrics. Two important ITIL benefits are increased process efficiencies and cost savings. To date the ITIL implementation cost is \$9.3 million, with \$7.3 million for Incident and Change Management and \$2 million for the Service Desk Management. The Return on Investment for the three ITIL projects implemented is projected at \$9.8 million for the first three years with a total savings of approximately \$25 million over five years.

Based on Internal Audit's review, internal controls for ITIL projects are adequate. Proper documentation was provided to comply with both CoBit and PMO standards for project management.

AGENDA ITEM 6: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 9 THROUGH 16

Mr. Quinlan requested public comment on the appropriateness of Closed Session Agenda Items 9-16, of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT

Mr. Quinlan requested other public comment, of which there was none. The Audit Committee immediately convened into Closed Session at 8:20 a.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 10:00 a.m. following the conclusion of the Closed Session and the following Members were present: Francis (Frank) E. Quinlan, Steven L. Rank, William M. Zachry and Sheryl A. Chalupa (Alternate).

Also present: President and Chief Executive Officer Tom Rowe; Internal Audit Manager Marie W. Wardell; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

There was a quorum.

AGENDA ITEM 18: COMMITTEE MEMBER PRESENTATIONS

Mr. Quinlan asked if there were any Committee Member presentations, of which there were none.

AGENDA ITEM 19: PROPOSALS AND SUGGESTIONS FOR May 17, 2012 AGENDA

Mr. Quinlan noted that the next Audit Committee meeting is scheduled for May 17, 2012 in San Francisco and requested proposals and suggestions for the May 17, 2012 agenda, of which there were none.

Mr. Quinlan asked for any public comment, of which there was none.

ADJOURNMENT

There being no further business before the Audit Committee, the meeting adjourned at 10:05 a.m.

Respectfully submitted,
Hilda Padua
Board Liaison and Assistant Corporate Secretary